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**REVIEW of HILL PDA
ECONOMIC ASSESSMENT REPORT**

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**PROPOSED
WOOLWORTHS DEVELOPMENT,
NEWPORT**

Prepared For
PITTWATER COUNCIL

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1 INTRODUCTION

1.1 Background

This Report has been prepared by Leyshon Consulting Pty Ltd for Pittwater Council (Council). The purpose of the Report is to provide an independent opinion on the economic aspects of an application to rezone land at Newport to facilitate the development of a Woolworths supermarket and some associated specialty shops.

Leyshon Consulting has been provided with two documents by Council namely

- ▶ *Planning Proposal Rezoning Submission for 17-19 Foamcrest Avenue and 25-27 Foamcrest Avenue, Newport – Urbis, July 2009, and*
- ▶ *Newport Commercial Centre Economic Assessment – Hill PDA, January 2010*

The Urbis report was prepared for Fabcot Pty Ltd while the Newport Hill PDA report was prepared for Woolworths Ltd. We understand that Fabcot is a subsidiary company of Woolworths.

This Report focuses on a review of the Hill PDA economic assessment.

1.2 The Proposal

We understand it is proposed to rezone two parcels of land from Special Uses 5(a) to 3(a) General Business A. The land in question is

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owned by Council and currently used as a public car park. This land together with land owned by Fabcot Pty Ltd (343-345 Barrenjoey Road) is proposed to be developed to accommodate a Woolworths supermarket of 3,200 sq m together with 600 sq m of supporting specialty retail floorspace.

We understand the land owned by Council provides some 56 public car parking spaces at present. The project (which is conceptual in nature at present) could result in a development providing up to 287 car spaces in total. Taking into account the indicative number required for the proposed development (174 spaces) and the number of existing spaces which need to be retained, the proposed development could result in a net gain of 57 spaces in the Newport centre.

2 **STATUTORY CONSIDERATIONS**

Hill PDA have prepared what they term an "economic assessment" of the proposed development rather than an economic impact assessment which is the usual approach in such circumstances. The reason for this is explained in Section 7.3 of their report.

In Section 7.3 ("Relevant Statutory Considerations"), Hill PDA provide a quasi legal opinion on the ambit of Section 79C(1)(b) of the New South Wales Environmental Planning and Assessment Act (the Act) as it applies to questions of economic impact and competition.

Hill PDA argue that the impact of the proposed development will fall mostly on the recently constructed Coles supermarket in Newport. They then argue—using as a line of authority other cases in the New South Wales Land and Environment Court—that this is a matter for Commonwealth Fair Trading legislation rather than the Act.

Hill PDA argue that it is an established legal precedent in the Land and Environment Court of New South Wales that the relevant impact of a proposed development is that which falls on centres not individual stores or direct competitors.

It is for this reason the Hill PDA report does not assess the potential impact of the proposed development but merely examines certain floorspace demand and supply issues.

As a general proposition, this interpretation of matters by Hill PDA may be a reasonable summary of the tenor of cases decided by the Court.

Nevertheless, each case should be examined on its merits. This has not occurred in this instance. As noted below, there is a higher Appeal Court decision which reinforces the appropriateness of a merits-based approach as far as economic impact issues are concerned.

We are concerned that the Hill PDA report does not examine what effect a much larger Woolworths supermarket of 3,200 sq m (plus 600 sq m of supporting specialty retail) will have on the smaller recently opened 1,600 sq m Coles supermarket at the northern end of the Newport retail strip.

Further, the Hill PDA report does not consider what might be the impact on the existing centre at Avalon of the transfers of spending from the Avalon Woolworths to the new store proposed at Newport.

We do not consider Hill PDA is qualified to make judgments as to whether or not the circumstances of this particular case mean that normal considerations of economic impact examined under Section 79C1)(b) of the Act can be set to one side because of their belief that the economic impact issues associated with the rezoning only relate to questions of direct competition between Woolworths and Coles.

We are not in a position to provide a legal opinion on this matter. We do note, however, that a Court of Appeal judgment (Randall -v- Willoughby Council 2005 NSWCA 205) sheds further light on the ambit of economic impact considerations under the Act. We understand this judgment found that certain economic issues as they relate to planning matters cannot be assumed to be outside the ambit of the Act.

Given the importance of this issue and Council's involvement in this development as both a property owner and a decision-maker, we

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believe Council should seek an independent legal opinion as to whether the normal requirements of Section 79C(1)(b) of the Act can be set aside in this instance in the manner advocated by Hill PDA

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REVIEW of ASSUMPTIONS

3.1 Trade Area

We consider the extent of the Newport trade area adopted by Hill PDA is reasonable, however, it needs to be recognised that due to the close proximity of Newport to Mona Vale (about 3.5km apart) the Mona Vale and Newport trade areas substantially overlap. Newport has three national chain supermarkets—namely Coles, Woolworths and ALDI—and clearly operates as a higher order centre for residents of Newport and suburbs to the north of Newport.

3.2 Demographics

The demographics which are presented in the Hill PDA report (Tables 3 and 4 refer) present standard Australian Bureau of Statistics (ABS) Census data. In our opinion the main point to note from the data is that median weekly household incomes in both the Primary Trade Area (PTA) and Secondary Trade Area (STA) were approximately 50% above the Sydney average in 2006. This, in theory, gives trade area residents a higher propensity to consume retail goods and services (and thus support an above average provision of retail floorspace per capita) than is the case for Sydney Region residents generally.

3.3 Population Projections

Section 4 of the Hill PDA report provides a population projection for the trade area to 2031. Putting to one side how accurate such projections are over such an extended period, the projection has little

relevance in this case as the economic impact of the supermarket, if approved, will be concentrated almost exclusively in the period 2011-16. Hence population growth beyond 2021 is of little practical relevance.

3.4 Existing Centres

Section 5 of the Hill PDA report provides a very superficial description of existing centres in the trade area with the exception of Warringah Mall. An example of this is the description of Mona Vale which Hill PDA says contains 28,000 sq m of retail floorspace. For some reason, however, they fail to mention that Mona Vale has three national chain supermarkets—namely Woolworths, Coles and ALDI.

Similarly, in relation to Newport itself, the Hill PDA report does not refer to the size of the Coles supermarket (believed to be 1,600 sq m) or to the fact that it has recently opened. As previously noted, the size of the Coles supermarket relative to the application for a Woolworths supermarket in Newport we consider to be particularly relevant in terms of the impact of the proposal on Newport itself.

The description of Avalon (to the north of Newport) provided by Hill PDA is particularly rudimentary. Despite their contention that the Avalon town centre contains the largest number of retailers in the trade area, it is in fact only marginally larger than Newport both in terms of floorspace and number of retailers. It is also notable, but not referred to by Hill PDA, that the Avalon Woolworths at around 2,300 sq m is considerably smaller than that proposed at Newport.

In our opinion the number and size of existing supermarkets in centres in the trade area are relevant in this case because it goes to the question

of the need for additional supermarket floorspace. This is relevant because the subject application involves a rezoning proposal rather than simply a development application. Consequently, it is relevant for Council to have regard to the adequacy of existing facilities located in areas already appropriately zoned for such retail uses.

3.5 Available Spending

In Section 6 of the Hill PDA report estimates are provided of retail spending in general, and supermarket spending in particular within the trade area. We note these estimates are sourced from data provider MarketInfo. MarketInfo tends to produce higher estimates of available spending than do other analysts of Australian Bureau of Statistics (ABS) data on household income and retail spending patterns. Hill PDA acknowledge this saying that MarketInfo's expenditure estimates are around 14% higher than those generated by using ABS source data.

That said, we do not believe the extent of the difference between various estimates of available spending in the trade area is likely to be a critical issue in this case.

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DEMAND for SUPERMARKET FLOORSPACE

In Section 6.2 of their report, Hill PDA provide an estimate of the demand for supermarket floorspace in the Newport trade area between 2007 and 2031.

Although Section 6.2 consists of only two paragraphs and a table it is the most important section of the Hill PDA report. The analysis in Section 6.2 takes as a starting point their estimates of available spending in supermarkets and grocery stores in the primary and secondary trade areas as set out in Tables 7 to 9.

The analysis then assumes that 77% of this spending will be captured by local supermarkets post development of the proposed Woolworths—that is, 23% of spending will escape to Mona Vale, Warriewood and other locations.

The residual available supermarket expenditure for local supermarkets is then divided by a turnover rate of \$10,000 per sq m per annum. This rate is a common industry average used to determine the amount of floorspace which can be supported by the retained expenditure such that most supermarkets would trade at a viable level.

Obviously some supermarkets would trade well above this level. For example, in their 2009 Annual Report Woolworths data indicate that the average turnover for a Woolworths supermarket in Australia was \$14,000 per sq m per annum.

By dividing the retained expenditure by the average turnover rate a notional demand for supermarket floorspace is obtained. By subtracting the current supply of supermarket floorspace in the trade area the theoretical under- or over-supply of supermarket floorspace is then derived.

Applying this methodology, Hill PDA estimate the demand for supermarket floorspace in the trade area in 2011-12 is 7,913 sq m (Table 10 refers). By subtracting the supply of existing supermarket floorspace (4,306 sq m) in the trade area an under-supply of -3,607 sq m results. This is of course slightly greater (by about 400 sq m) than the proposed Woolworths supermarket at Newport (3,200 sq m).

In theory this means that if the assumptions adopted by Hill PDA are correct, there will be, even allowing for the construction of the Woolworths supermarket at Newport, a reasonable balance between the local demand for, and supply of, supermarket floorspace in 2011-12.

In our opinion the most crucial issue in this instance is whether or not the development of a Woolworths supermarket at Newport will reduce the current level of escape supermarket spending to 23.0% as assumed by Hill PDA.

To place this issue in perspective, we have estimated broadly that at present about 56.6% of the notional demand for supermarket floorspace in the Newport trade area is satisfied by supermarkets outside the trade area—for instance, by stores in locations such as Mona Vale, Warriewood et cetera. By 2011-12 we estimate this would rise to approximately 58.1%.

As indicated in TABLE 4.1 below, adopting the Hill PDA demand estimates for 2011-12 and adding in the potential supply of the Woolworths supermarket at Newport (3,200 sq m), the theoretical "under-supply" of supermarket floorspace would be reduced to 27.0%

TABLE 4.1
ESTIMATED DEMAND/SUPPLY of SUPERMARKET FLOORSPACE –
NEWPORT TRADE AREA, 2009-10 and 2011-12

Factor	2009-10	2011-12	
		No Woolworths	With Woolworths
Available ¹ (\$ Mil)	\$99.3	\$102.8	\$102.8
Demand ² (Sq M)	9,930	10,280	10,280
Existing ³ (Sq M)	4,306	4,306	7,506
Under-supply (Sq M)	(5,624)	(5,974)	(2,774)
Under-supply (%)	(56.6)	(58.1)	(27.0)

Sources/Notes

- 1 Hill PDA Table 10
- 2 \$10,000 per sq m per annum
- 3 Hill PDA

The fundamental question, therefore, is whether the proposed development of a full-line Woolworths supermarket at Newport effectively would halve the current level of escape expenditure flowing to other centres (and hence supermarket floorspace demand in those centres). On face value, given that a smaller Woolworths supermarket already exists in the trade area (at Avalon) as well as a large Woolworths supermarket at nearby Mona Vale, this appears an optimistic assumption.

To test the implications of a lower level of available spending self-containment, TABLE 4.2 estimates the demand/supply balance of floorspace assuming only 65.0% of available supermarket spending was retained by trade area supermarkets—that is, 35.0% continues to escape to Mona Vale, Warriewood and other centres. As indicated in

TABLE 4.2, under the Hill PDA analysis which assumes 77.0% retention there would be a slight under-supply of -407 sq m in 2011-12

Adopting a more conservative 65.0% retention rate results in a small over-supply of +826 sq m in 2011-12. An oversupply of +826 sq m (or around 12.0%) is not considered particularly significant in that it would only reduce average supermarket sales levels to around \$8,900 per sq m per annum. At such an average sales level, the majority of supermarkets in the trade area should still be able to trade at acceptable levels.

TABLE 4.2
NEWPORT TRADE AREA SUPERMARKET FLOORSPACE
OVER-/UNDER-SUPPLY – HILL PDA and ALTERNATIVE
ANALYSIS, 2011-12

Factor	2011-12 Hill PDA	2011-12 Alternative
Available Expenditure ¹ (\$ Mil)	\$102.8	\$102.8
Expenditure Retained (%)	77	65
Expenditure Retained (\$ Mil)	\$79.1	\$66.8
Floorspace Demand ² (Sq M)	7,913	6,680
Floorspace Supply ³ (Sq M)	4,306	4,306
Under-supply (Sq M)	(3,607)	(2,372)
Less Woolworths	3,200	3,200
Under-/Over-supply Post Woolworths (Sq M)	(407)	826

Sources/Notes

- 1 Hill PDA Table 10
- 2 \$10,000 per sq m per annum
- 3 Hill PDA

Overall, therefore, a reasonable balance between the demand for, and supply of, supermarket floorspace within the Newport trade area in 2011-12 appears likely if development of the proposed Woolworths proceeds.

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This does not mean, however, that a Woolworths supermarket can be introduced into the Newport retail system "impact free" As noted previously, we have concerns about the potential impact of the proposed supermarket on the newly opened, and much smaller Coles in Newport, and what the inevitable reduction in sales activity at Woolworths Avalon may mean for that centre

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OTHER ISSUES

It is fair to note that the proposed Woolworths supermarket will bring some benefits to the Newport centre. The development of a full-line supermarket within the centre where none exists at present should have a positive influence on local shopping patterns to the benefit of Newport as a whole. That is, it should encourage a higher proportion of trade area resident shopping trips to be directed to Newport than occurs and present. This should have potential spin-off benefits in terms of the existing retail premises which line Barrenjoey Road.

The proposed retail development at Newport will also create jobs in the centre. Given that the unemployment rate in Newport in 2006 was only 3.0% this may not be viewed as a substantial benefit by some residents of the area, however.

Subject to final plans, the centre will also benefit from an increase in overall off-street car parking by some 57 spaces.

Hill PDA claim that the proposed supermarket development will result in an increase in the level of local price competition for groceries and the like (Section 8.7 refers). We note nevertheless that numerous surveys have revealed there is little difference in the general pricing structure of Woolworths and Coles particularly in situations where there are already existing supermarkets located in fairly close proximity to one another such as in this case at Mona Vale, Newport and Avalon. Moreover, most supermarkets in Australia are moving to a standard "national pricing" policy which will further narrow price differences between the major chains.

The 2008 report by the Australian Competition and Consumer Commission (ACCC) into the pricing of goods in Australian supermarkets found that it was only the existence of an ALDI supermarket within a particular centre or within a kilometre of a Woolworths or Coles that led to significant price competition advantages for shoppers

The other economic benefit the proposal will generate is increased "choice" for shoppers as far as supermarket goods are concerned **in Newport** rather than within the surrounding region as Woolworths is already represented at Avalon, Mona Vale and Warriewood

Notwithstanding the above, we acknowledge that for some residents there is a fear that the arrival of a Woolworths full-line supermarket in the Newport centre will detrimentally alter its "village character" It is impossible to place an economic value on these concerns as there is no satisfactory method of valuing them against more easily quantifiable issues such as an increase in the provision of public car parking and the introduction of a full-line supermarket to the centre

6 CONCLUSION

As stated earlier in this Report, we do not accept the argument put forward by Hill PDA that issues related to economic impact are irrelevant in this case simply because the application is for a Woolworths supermarket which they say would compete with an existing Coles supermarket in the Newport centre

We contend there are relevant issues related to economic impact which have not been canvassed by Hill PDA such as the impact of a larger Woolworths supermarket on the smaller Coles store in the centre and the impact of the proposal on Avalon

Given the unique circumstances surrounding Council's involvement with this application, we consider it imperative Council seek independent legal advice on whether the stance advocated by Hill PDA is appropriate in this case

That said, there is prima facie evidence that the proposed development would not generate, in a general sense, unacceptable impacts on the retail system in the trade area and would, if viewed in isolation from community concerns, produce some economic benefits for the Newport centre. Arguments that the proposed development will increase local competition in the supermarket sector appear overstated, however

Finally, given the relatively close proximity of several existing Woolworths stores to Newport, it hardly could be said that the local community would be significantly advantaged in terms of supermarket provision by the project proceeding



